

## **Funding transport infrastructure: a territorial management instrument to capture unearned increments**

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## **Issue/research problem and its relevance**

The research reported in this article presents the theoretical framework, the goals, methodology, results and conclusions concerning the proposal of a new territorial management instrument (to insert into urban plans, within the scope of the new Portuguese Land and Planning Act) which main goals consist in relating increments in land values to public investments in urban infrastructures, and in designing a tax that supports the capture of the corresponding unearned increments.

## **Background**

Public decisions and the general economic evolution (independently from landowners initiatives and investments) trigger land value increases, currently called “unearned increments”. The part of the “unearned increments” that specifically results from land use plans and regulations, from a decision to control urban development, or from the provision of public infrastructure, is usually called “betterment”. Instruments to capture these betterments have been increasingly adopted by local public finance, either due to income shrinking from local taxes, or to the need of alternative ways to fund local infrastructures, especially the transport-

related ones. This recovery may be pursued through fiscal instruments, or through local betterments on communities' general behalf.

## **Methodology**

The used methodology founds on an economic assessment that consists in charging landowners/promoters a 20% fee on land "unearned increments" that result from the assignment by urban plans of specific building capacities to urban interventions especially targeted to tourism uses, and redirect this contribution to finance transport infrastructure implied by these undertakings. The proposed methodology is applied to the Urban Development Plan of the Planning Unit 11 of the municipality of Lagoa, located in the Algarve, Portugal.

## **Key results**

This methodology and the proposed instrument enable the objective identification and quantification of the contribution to fund transport infrastructures, obtainable from the analysis of the urban parameters licensed by plans to real estate undertakings especially targeted to tourism uses.

**Keywords:** unearned increments; economic and financial sustainability of plans; value capture instruments